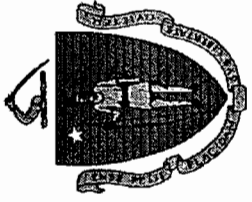


EXHIBIT A



Commonwealth of Massachusetts
Pension Reserves Investment Management Board



PRIM Board
Examination of Foreign Exchange
Currency Transactions Handled by
BNY Mellon

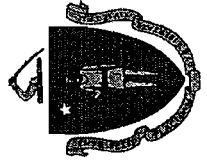
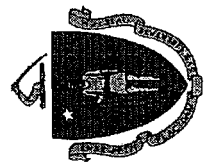
June 13, 2011

Executive Director: Michael G. Trotsky, CFA | CIO: Stanley P. Mavromates, Jr. | CFO: Thomas A. Hanna, CPA

Foreign Exchange Transaction Examination Overview

2

- ☐ Over the past 18 months PRIM Staff has reviewed foreign exchange transactions.
- ☐ That examination resulted in the retention of an independent firm, FXTransparency, to examine foreign exchange transactions.
- ☐ The Board retained FXTransparency in April 2011.
- ☐ The examination period was for foreign exchange transactions from January 1, 2007 to May 11, 2011.
- ☐ FXTransparency presented the results of the BNY Mellon foreign exchange trades on Monday, June 13, 2011.



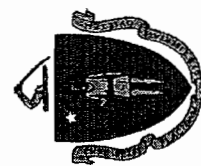
Foreign Exchange Transactions Overview

- ❑ Foreign exchange transactions are negotiated; there are no commissions.
- ❑ Foreign exchange transactions for pension plans usually take two forms:
 - ❖ Non-negotiated (standing instructions) are used for repatriation of interest income, dividend income, and tax reclaims. The custodian of a pension plan handles the processing and foreign exchange transactions for non-negotiated.
 - ❖ Negotiated trades are used for all other transactions, primarily the purchase and sales of securities in a foreign market.



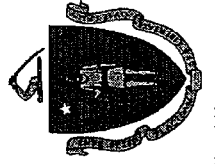
Foreign Exchange Transactions Overview

- ❑ For the period January 1, 2007 to May 11, 2011 there were 34,256 non-negotiated trades executed with BNY Mellon with a volume of \$7,556,362,137. On a volume basis this represents 32.7% of all trades with BNY Mellon.
- ❑ For the period January 1, 2007 to May 11, 2011 there were 10,345 negotiated trades executed with BNY Mellon with a volume of \$15,528,185,491. On a volume basis this represents 67.3% of all trades with BNY Mellon.



Summary Non-Negotiated Trades with BNY Mellon

- ❑ BNY Mellon's non-negotiated trades rank unfavorably versus the mean of the FXTransparency peer universe.
- ❑ The non-negotiated trades rank in the 9th (100 = best) percentile.
- ❑ BNY Mellon's non-negotiated trades for PRIM cost 30.9 basis points compared to the mean cost of 4 basis points of the FXTransparency peer universe.
- ❑ This difference resulted in an overcharge to PRIM Board of at least \$20 million.



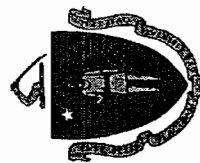
Summary – Non-Negotiated Trades with BNY Mellon

	Total Cost	Total Volume	Trade Count	Cost in BPS	Rank in FXT Universe (100% = Best)
Grand Total	\$ (23,322,987)	\$ 7,556,362,137	34,256	-30.9	9%
Spot & Forwards	\$ (23,223,014)	\$ 7,528,591,353	33,909	-30.8	10%
Swaps	\$ (99,974)	\$ 27,770,783	347	-36.0	5%

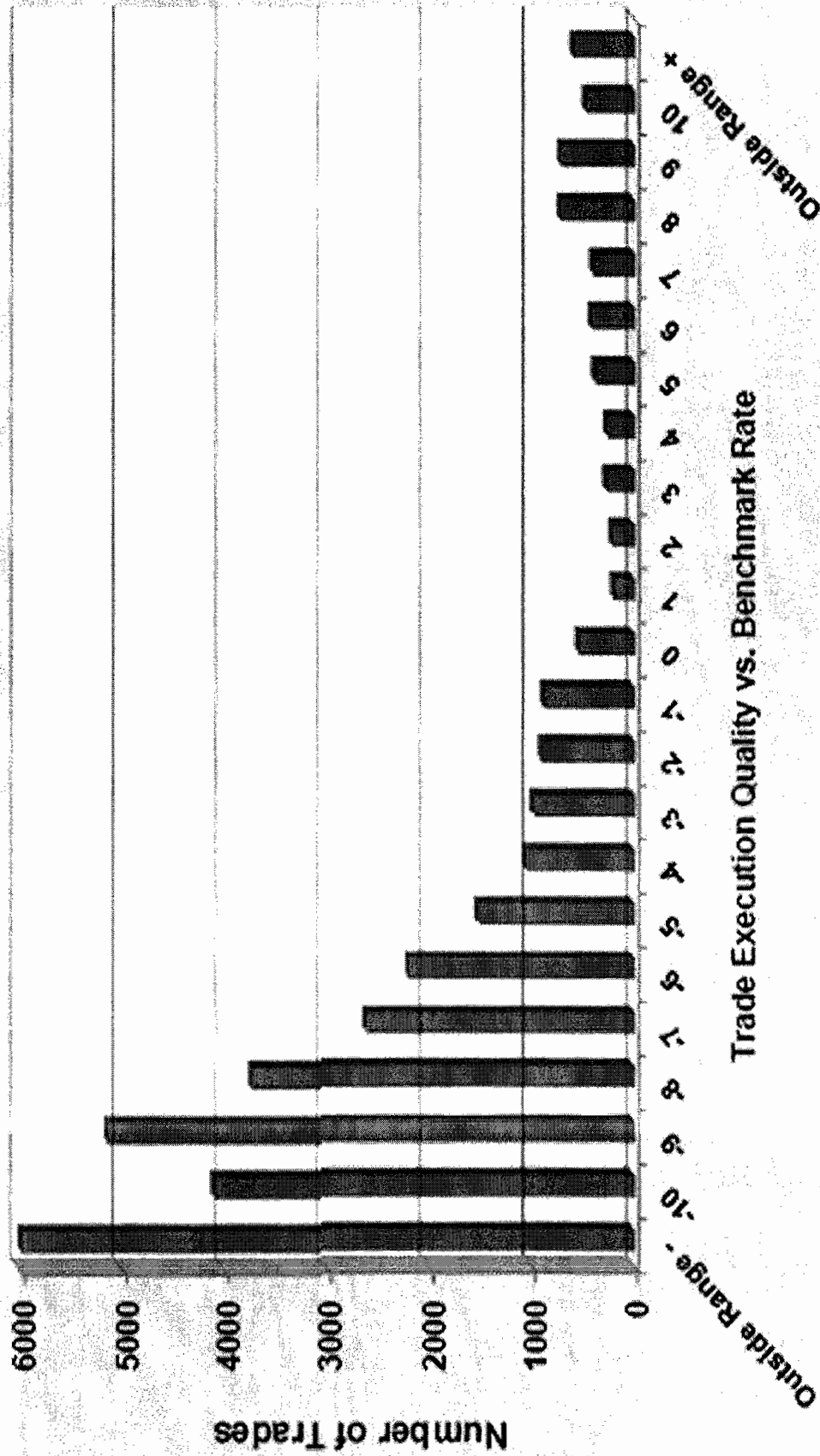
FX Transparency Peer Universe Percentiles in Basis Points

Total Principal = \$3,391,623,244,010

Percentile rank	Total Costs	Spot and Forward	Swap
Best	262.7	262.7	252.9
75 th	-0.4	-1.1	-0.11
50 th	-4.0	-5.1	-0.50
25 th	-14.2	-16.1	-1.52
Worst	-237.9	-237.9	-184.7

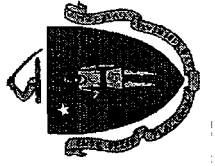


Pricing vs. Day's Range Non-Negotiated Trades with BNY Mellon



Summary – Negotiated Trades with BNY Mellon

- ❑ BNY Mellon's negotiated trades rank favorably versus the mean of the FXTransparency peer universe.
- ❑ These negotiated trades rank in the 61st (100 = best) percentile.
- ❑ BNY Mellon's negotiated trades for PRIM cost 2.2 basis points compared to the mean cost of 4 basis points.



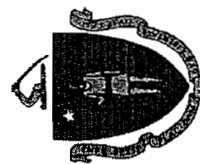
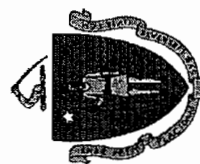
Summary – Negotiated Trades with BNY Mellon

	Total Cost	Total Volume	Trade Count	Cost in BPS	Rank in FXT Universe (100% = Best)
Grand Total	\$ (3,364,538)	\$ 15,528,185,491	10,345	-2.2	61%
Spot & Forwards	\$ (2,981,532)	\$ 13,372,409,224	10,187	-2.2	67%
Swaps	\$ (383,006)	\$ 2,155,776,268	158	-1.8	23%

FX Transparency Peer Universe Percentiles in Basis Points

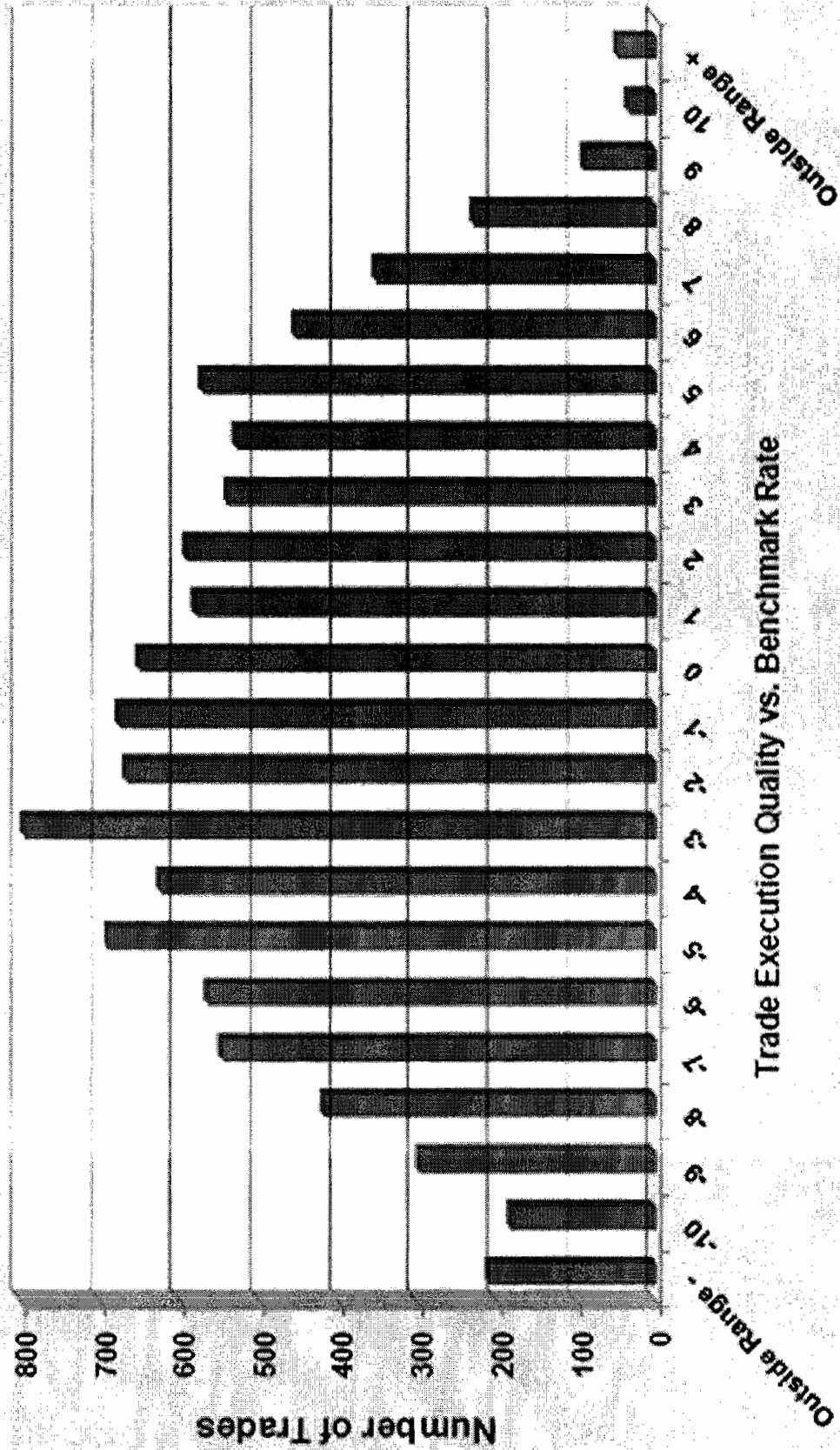
Total Principal = \$3,391,623,244,010

Percentile rank	Total Costs	Spot and Forward	Swap
Best	262.7	262.7	252.9
75 th	-0.4	-1.1	-0.11
50 th	-4.0	-5.1	-0.50
25 th	-14.2	-16.1	-1.52
Worst	-237.9	-237.9	-184.7



Pricing vs. Day's Range *Negotiated Trades with BNY Mellon*

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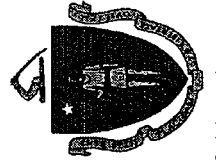
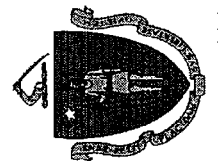
Plan of Action

- ☐ PRIM has asked FXTransparency to extend the audit back to January 1, 2000.
- ☐ PRIM will be working with Treasury and the Attorney General's Office to explore all legal options with respect to excess costs of non-negotiated foreign exchange transactions executed with BNY Mellon.
- ☐ PRIM will pro-actively examine industry best practices for foreign exchange transactions over the coming months including possible collaboration with other state plans.



Appendix

Foreign Exchange Currency Memorandum





Pension Reserves Investment Management Board

84 State Street, Second Floor
Boston, Massachusetts 02109

Treasurer Steven Grossman, Chair
Michael G. Trotsky, CFA, Executive Director

To: Michael G. Trotsky, CFA, Executive Director

From: Stan P. Mavromates, Chief Investment Officer

Date: May 27, 2011

Subject: Foreign Currency Trading

Foreign Currency Trading

U.S. pension plans that have an allocation to non-US\$ denominated assets are exposed to foreign exchange transactions. These transactions are necessary in order to invest US\$ in a foreign market or repatriate a foreign investment back to US\$. The foreign exchange transaction is a negotiated price; there are no commissions involved in the transaction. Instead, the buyer or seller of the currency make a profit on the "spread" they charge to a customer that is over and above the price that exists in their "inventory." This is similar to the bond market.

The foreign exchange transactions for pension plans usually take two forms; standing instructions (also known as non-negotiated) and negotiated price. Standing instructions are used for repatriation of interest income, dividend income, and tax reclaims. The custodian of a pension plan handles the processing and foreign exchange transactions for standing instructions. For PRIM, Mellon has standing instructions to process any foreign exchange transactions for interest income, dividend income and tax reclaims. Mellon will publish a guaranteed range of foreign exchange prices every morning and ensures that the standing instruction will be processed within that range. The controversial issue is that the range published each morning is very wide, and in fact, ERISA allows a 3% range. So theoretically, Mellon can charge at the high end of the range even though they purchased or sourced the currency at the low end of the range.

In negotiated price, the investment manager decides who to use for the foreign exchange transaction. A foreign exchange transaction is necessary to enable the buying and selling of foreign securities. For example, the investment manager might sell a security denominated in Euro in order to buy a security in Yen. The manager must convert the Euro proceeds to Yen in order to execute the trade. The investment manager typically will check with the custodian for a price and two or three other foreign exchange dealers. In this arrangement, the custodian or foreign exchange dealers act on a principal basis, and this activity is a known profit center for them. This means that a price is offered and the principal (Mellon or State Street) is not necessarily acting on behalf of the investment manager. This is an open market transaction where the investment manager has a choice to agree to the transaction or to take the trade

elsewhere. The very nature of this arrangement is such that the principal is making a profit or spread on the transaction. The investment manager, not the foreign exchange dealer, is acting in the capacity of a fiduciary and is motivated to obtain the best foreign exchange price because trading costs are netted against performance.

PRIM's Foreign Exchange Process

- The investment managers have full discretion in the execution of foreign exchange trades.
- There are no contractual foreign exchange rates in PRIM's contract with BNY Mellon.
- Most managers have standing instructions with Mellon for repatriation of interest income, dividend income, and tax reclaims.
- All investment managers have procedures in place to ensure that they feel they are getting best execution from the custodian or broker they use.
- PRIM surveyed all non-US investment managers to understand how they execute foreign exchange trades. Managers' practices range from defaulting to using their client's custodian (in this case BNY Mellon), to trading with third party brokers to execute FX on behalf of PRIM. Some managers use a combination of these practices.
- PRIM asked the investment managers what their process is to ensure they are obtaining best execution from FX providers and nearly all the responses were that managers pull up current FX market rates on Bloomberg, and compare them to the custodian's quote to ensure the quote seemed reasonable and/or the managers actively trade FX on behalf of clients using a variety of brokers.
- Since we began surveying our managers last spring, more of our managers are using a variety of FX providers rather than just using client custodians as a policy.